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ABSTRACT

New York State law permits school districts to invest cash not immediately needed for district operation and also specifies the kinds of investments that may be made in order to ensure the safety and liquidity of public funds. This audit examines cash management and investment practices in New York state's financially independent school districts. Of 275 randomly selected school districts that were sent questionnaires, 173 (63 percent) responded. Of these districts, 28 within 10 counties were selected for field visits. Three counties, wealthier than the others, outearned other school districts because of a combination of the many banks competing for school district cash and districts' borrowing for investment purposes. Districts using three or more banks for investment purposes generally earned more than districts using one or two. Alternatives suggested to school districts for improving earnings include use of interest-bearing checking accounts; pooling available cash with other school districts, towns and villages, or Boards of Cooperative Educational Services to obtain larger, higher interest-earning investments; and obtaining interest rate "quotes" from several banks. The appendixes contain a list of interviews and contacts, a table showing school district uninvested cash, a summary of investment pooling practices in four states, and two letters from state agencies. (MLF)

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School District Cash Management

Program Audit
December 1981

SUMMARY AND CONCLUSIONS

School districts in New York State are permitted by law to invest cash not immediately needed for district operation, in order to earn interest on that cash and increase district revenues. State law also specifies the kinds of investments that school districts may make to insure the safety and liquidity of public monies.

LCER's study of 23 school districts in ten counties showed that an efficient cash management and investment program can produce additional revenues in nearly all districts, but the school districts studied did not view such "income maximization" as a priority business activity.

Chart S-1 shows interest income and expense for independent school districts in New York State from 1975-76 to 1979-80.

Higher interest income for school districts resulted primarily from higher interest rates, as shown in Chart S-2, rather than from better investment programs.

The following factors also affected district investment performance:

--Geographic location. Districts in Nassau, Suffolk and Westchester counties consistently outearned upstate districts. This appears to result from a combination of factors including the many banks competing for school district cash, districts' borrowing for investment purposes and, on average, the fact that these districts are wealthier than those upstate.

--District wealth. Greater dependence on State aid limited a district's investment opportunities. With 75 percent of basic State aid distributed in the last quarter of the school district fiscal year, poor districts had less cash to invest. However, the Legislature has taken steps to make State aid to districts more uniform throughout the school year; in 1980-81 more than four percent of State aid was shifted from the last quarter to the third quarter.

--Use of banks. Districts using three or more banks for investment purposes generally earned more than districts using one or two.

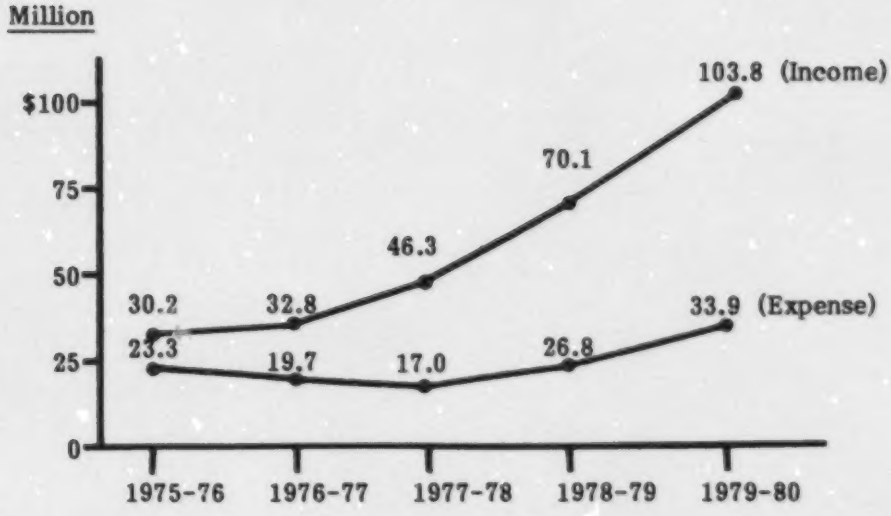
--Limited State assistance. Although the State Education Department (SED) and the Department of Audit and Control can provide cash management assistance, limited staff in those agencies force districts to obtain advice from banks.

LCER's district site visits revealed cash on deposit in both interest bearing and non-interest bearing checking accounts. For a two-month period, the 25 districts using interest-bearing accounts showed a combined average daily balance of $15,622,000. In accounts earning no interest, fifteen districts showed a total average daily balance of $6,540,000. Districts were also found to have temporarily borrowed more than they needed for operating purposes, in order to obtain additional amounts to invest.

Finally, as LCER found in reviewing neighboring States' operations, school districts sometimes pool cash in order to be

Chart S-1

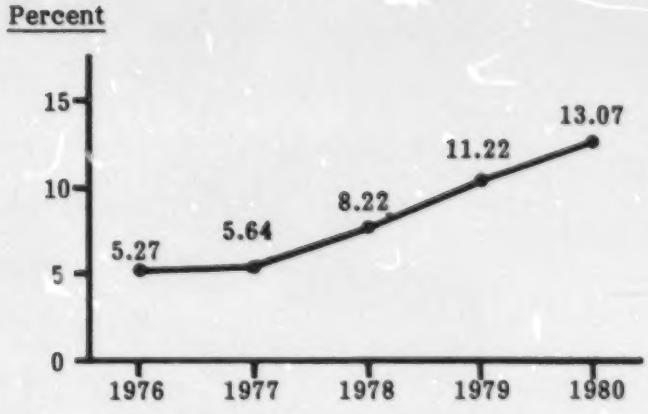
Interest Income and Expense
All School Districts



Source: State Education Department Reports.

Chart S-2

Average Annual Interest Rates
90-Day Certificates of Deposit



Source: Wall Street Journal.

eligible for higher interest rates on larger investments. While only ten percent of eligible districts participated, investment pooling was viewed as an investment option. New York State's Comptroller has ruled that school districts may pool and invest cash with Boards of Cooperative Educational Services (BOCES), other school districts or towns and villages,* but none of the districts surveyed or visited by LCER staff had pursued this alternative.

Alternatives for Improving School District Investment Performance

The potential for improving investment performance exists in most of the school districts visited by LCER. Alternatives for improving earnings include:

--Use of interest bearing checking accounts (NOW accounts) instead of non-interest bearing accounts.

--Pooling available cash with BOCES, other school districts or towns and villages* to obtain larger, higher interest earning investments.

--Obtaining interest rate "quotes" from several banks, including banks outside the district, for school district investments.

--Increased assistance--at the initiative of SED--to all school districts in the form of training and cash management advice.

In response to a request by LCER staff, the State Comptroller issued an opinion (No. 81-418) on December 17, 1981 which advises that school districts may invest jointly with towns or villages. (See Appendix D).

Findings for Comment by the New York State Education Department

Chapter 58 of the Laws of 1980 requires heads of agencies which have been examined to report within 180 days of receipt of the final program audit to the Chairman of the Commission and the Chairmen and the Ranking Minority Members of the Senate Finance Committee and the Assembly Ways and Means Committee on what steps have been taken in response to findings and where no steps were taken, the reason why.

1. School districts lose interest income by not always depositing available cash in interest bearing accounts. The SED has not issued administrative directives to school districts concerning the use of such accounts. (See p. 4.)

2. The State Education Department analyzes and reports on administrative practices for New York State school districts. These reviews do not suggest alternatives or make recommendations for improving cash management and investment performance. (See p. 4.)

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FOREWORD

The Legislative Commission on Expenditure Review was established by Chapter 176 of the Laws of 1969 as a permanent legislative agency for among other duties, "the purpose of determining whether any such department or agency has efficiently and effectively expended the funds appropriated by the Legislature for specific programs and whether such departments or agencies have failed to fulfill the legislative intent, purpose and authorization" and to "make a comprehensive and continuing study of. . . the program of and expenditures by state departments." This program audit, School District Cash Management, is the ninety-fifth staff report.

This audit examined the cash management and investment performance of financially independent school districts in New York State. Investment pooling operations in four neighboring states were also examined as part of this study. New York State's Comptroller has ruled that school districts may invest cash jointly with Boards of Cooperative Educational Services or other school districts. At LCER's request, the Comptroller issued an opinion dated December 17, 1981 advising that school districts also may invest jointly with towns or villages (Appendix D).

While interest income received by school districts increased significantly during the last five years, earnings growth resulted mostly from higher interest rates rather than from better cash management. Furthermore, an LCER survey found that the investment of available cash to maximize interest income was not a priority business activity of school districts.

Appreciation is expressed to personnel of the New York State Education Department for their assistance and cooperation during the audit. Appreciation is also expressed to the 28 school districts visited by LCER staff.

A uniform procedure is followed for each of the audits. After the preliminary draft is completed, copies are delivered to the agency involved in carrying out the legislative policies under review. The reply from the Commissioner of Education is included in the Appendix.

In accordance with Commission policy, this report focuses on factual analysis and evaluation. Recommendations and program proposals are not presented since they are in the realm of policymaking and therefore the prerogative of the Legislature.

The audit was conducted by Ronald Saffin, Chairman; Frank Jackman and Irving Wendrovsky with data processing assistance from David Rowell. Bernard Geizer served as general editor while James Haag handled layout and production. Word processing and graphics services were provided by Ann Careccia. Overall supervision was the responsibility of the Director.

The law mandates that the Chairmanship of the Legislative Commission on Expenditure Review alternate in successive years between the Chairman, Senate Finance Committee, and the Chairman, Assembly Ways and Means Committee. Senator John J. Marchi is Chairman for 1981 and Assemblyman Arthur J. Kremer is Vice Chairman.

December 29, 1981

Sanford E. Russell
Director

I INTRODUCTION

As is the case with all units of local government, school districts have cash available for investment purposes at various times during the fiscal year. A number of factors influence the cash management process in school districts and are reflected in investment performance. While some factors are a matter of individual school district preference, many are beyond the control of the district.

Background

Definitions of the cash management process in local government are many and have been offered by academicians, bankers, accountants and others. While different definitions exist, the objective of cash management is to maximize the production of interest income. Most definitions also include as important elements of the cash management process: (1) the collection and deposit of revenues as quickly as possible; (2) the preparation of a cash flow projection and subsequent comparisons to actual cash flow; (3) the existence of an investment policy; and (4) a mutually beneficial relationship with banks.

Cash management in school districts has been the focus of many studies. Most of these conclude that investment performance in school districts is affected by a variety of factors including size, wealth, when revenues are received and when expenditures occur. Although these factors and others will produce variations in cash flow among districts, most have cash available for investment for a portion of the fiscal year.

Temporary borrowing for operating purposes is also necessary in certain districts because of variations in cash flow. Table 1 shows interest income and interest expense for financially independent school districts in New York State for the five year period ending with the 1979-80 school fiscal year. Financially dependent districts (located in cities with populations over 125,000) are not included in Table 1, nor are they examined in

Table 1

Interest Income and Interest Expense
Financially Independent School Districts
1975-76 to 1979-80

Fiscal Year	Interest Income (Millions)	Interest Expense (Millions)
1975-76	$ 30.2	$23.3
1976-77	32.8	19.7
1977-78	46.3	17.3
1978-79	70.1	26.8
1979-80	103.8	33.9

Source: State Education Department, General Fund Investment Interest Reports.

this program audit since they do not have direct control of their revenues and expenditures. In such districts (Buffalo, New York City, Rochester, Syracuse and Yonkers), revenues and expenditures are controlled by the city in which the district is located.

Legislative Intent

New York State law provides that school district governing boards (boards of trustees or boards of education) may authorize the investment of funds not immediately necessary for operating purposes. This authorization is provided by the Education Law (Sections 1604-a, 1723-a, 1805 and 2503).

The legislation reflects the desire to maintain the safety and liquidity of public funds held by school districts. Investments authorized by law include special time deposits in, or certificates of deposit and repurchase agreements issued by banks or trust companies located and authorized to do business in this State. All investments placed with banks or trust companies must be fully secured by the pledge of obligations of the United States of America (or obligations guaranteed by the United States of America), or obligations of New York State. Additionally, school districts may invest directly in obligations of the United States of America or in obligations of the State of New York. Such investments do not require the pledge of other securities as collateral.

Audit Scope

This audit examines cash management and investment practices in New York State's financially independent school districts. The existence and investment of cash is the central theme of this report and the audit focuses on cash management practices from two perspectives. First, an analysis of the impact that receipts and disbursements timing has on a district's cash management program. Receipts from two sources--property taxes and State aid--represent the bulk of total operating revenues. When these revenues are received is not controlled by the school district. School districts also have little control over when expenditures will occur.

Second, cash management is assessed in terms of practices controlled by the district, and the audit reviews the effect that cash forecasting, investment training, locally adopted policies and procedures and other factors have on investment performance.

This audit also examines the pooling of cash among municipalities for investment purposes and its possible use by school districts. In this regard, the organization and development of local government investment pools in several states is reviewed.

Methodology

A questionnaire and field visits were used by LCER staff to evaluate school district cash management and investment performance. The questionnaire was sent to 275 randomly selected school districts to obtain information on school district cash management policy and investment performance.

Of the 275 school districts surveyed, 173 (63 percent) responded to the questionnaire. The statistical accuracy of this size sample is approximately ± six percent at the .95 confidence level.

Of the school districts surveyed, 28 districts within ten counties were selected for field visits. The counties--Albany, Broome, Clinton, Erie, Franklin, Nassau, Onondaga, Rensselaer, Suffolk and Westchester--were chosen based on geographic location and when local property tax revenues were received by school districts. These were considered important because of their potential effect on a district's cash management and investment program. Individual school districts were then selected based on several other characteristics that also could potentially affect a district's investment program. These included: (1) size of the operating budget; (2) amount of basic State aid received per pupil; (3) return on investments in the 1979-80 school year; and (4) SED's classification of the school district (i.e., rural, suburban, small city, etc).

Districts were visited to examine cash flow records and review investment activity for selected periods during the 1979-80 fiscal year. In each district, LCER staff reviewed a two month period during which revenue collections were higher than normal and calculated average daily balances in non-interest bearing accounts or accounts with interest rates significantly lower than certificate of deposit rates.

To evaluate investment pooling as an alternative to current school district investment practices in the State, LCER staff visited representatives of centrally operated investment pools in New Jersey and Massachusetts. In addition, telephone interviews were conducted with representatives in Connecticut and Pennsylvania.

II CASH MANAGEMENT AND INVESTMENTS

Cash Management Assistance

There are few statutory requirements or restrictions regarding school district cash management programs. A school district choosing to operate an investment program has considerable discretion in how active the program will be and how it will operate. Statutory restrictions apply only to the types of financial instruments that districts may invest in.

Wide variations in investment programs were apparent during LCER field visits. For example, in one school district the individual responsible for cash management was not aware until 1980 that cash could be invested. Instead, cash routinely remained on deposit in the district's checking or savings account. In another district, the procedure has been to invest as much as possible using all investment vehicles authorized by law.

This section reviews the cash management assistance available to school districts from the State Education Department (SED), professional associations, the Department of Audit and Control (A & C) and local boards of education.

State Education Department

SED becomes involved in school district cash management and investments through its Bureau of Educational Management Services. The bureau employs one specialist in lending, investments and cash management whose principal responsibility is providing assistance to school districts. There are seven other professionals in the bureau who may be used to provide assistance in budgeting and cash flow matters.

Requests for services available through the bureau must originate with the local school district. However, the bureau routinely reviews a summary of interest earnings and costs for each school district and those which do not show interest earnings are contacted by SED. In a letter to LCER, the Bureau Chief reported ". . . the efforts of the bureau have been concentrated primarily upon those districts which we feel might improve [interest] earnings in proportion to the size of the general fund budget."[1]

SED, as part of its role of providing cash management assistance to school districts, issues publications, conducts individual and group conferences, and sponsors a yearly seminar. The Bureau of Educational Management Services also conducts studies of administrative and business management practices of local school districts when requested to do so. These studies do not suggest alternatives or make recommendations for improving cash management and investment performance.

The Commissioner of Education has promulgated rules and regulations for cash management and investments in school districts. These provide a list of basic procedures that must be followed by all school districts, but they contain only minimal guidelines on what should or should not be included in a school district's cash management and investment program. By contrast, the regulations of the Commissioner of Education in New Jersey require school districts to place their funds in interest bearing checking accounts (NOW accounts) and to bid for banking services.

Professional Associations

The NYS Association of School Boards and the NYS Association of School Business Officials play a minor role in school district cash management. Both sponsor seminars and have publications covering cash management and investments.

Although SED and the professional associations view education in cash management as important, an analysis of questionnaires shows that the majority of individuals managing school district investment programs have not received investment training. Sixty-eight percent of the respondents reported not having received investment training since they assumed responsibility for the cash management/investment program. Of those who reported training, 34 percent said it was provided by SED and 28 percent said it was provided by the associations. Other organizations mentioned as providing training were local colleges and banks. However, 40 percent of the respondents receiving training did not indicate the organization providing it.

Department of Audit and Control

The role of the Department of Audit and Control in school district cash management and investments is primarily reactive. The department usually does not become involved in this area unless it receives a specific request from a school district.

Audit and Control may influence a school district's cash management procedures in three ways. First, the State Comptroller, pursuant to the provisions of the General Municipal Law, has authority to conduct financial and/or compliance audits of school districts. In theory, school districts are scheduled for auditing every three years. However, audits for all other municipalities in the State have priority over school districts. The low priority assigned to such audits means that many school districts have not been audited by the State Comptroller since 1975. However, all school districts are audited annually by a certified public accountant and reports are sent to the Department of Audit and Control.

Secondly, a school district may request Audit and Control to decide upon the legality of a financial question. Opinions of the Comptroller are quasi-legal and subject to court review, but they provide guidelines to school districts on permissible financial procedures. Finally, the department issues reference guides and statements of policy with respect to cash management. For example, a reference guide issued in May 1966 summarized important provisions of law with respect to the investment of cash balances.

Boards of Education

A board of education may authorize the investment of cash. The board may designate the individual who will have overall responsibility for the investment program and also may issue policies and procedures. Any involvement in the area of cash management beyond the above would be at the discretion of the individual board.

Responses to the LCER questionnaire revealed little active involvement by school boards in cash management. For example, 71 percent of the districts reported that the board of education had not adopted formal investment policies and procedures. Even in those districts that reported the adoption of formal policies and procedures, a review by LCER staff revealed that only pro forma statements of authorization to invest existed in the majority of cases.

This does not mean that boards were not aware of investment activity in their districts. Seventy-six percent of the respondents to the LCER questionnaire reported that their board of education received written reports of investments placed and interest earned on a monthly basis. However, while this information is routinely provided to school district boards, effective cash management including the investment of all available cash to maximize interest income, was not a priority business activity in the school districts visited by LCER staff.

Cash Flow

The source and use of cash is similar among school districts. The largest portion of revenues comes from two sources, real property taxes and State aid. Major expenditure categories include salaries, employee benefits, operation and maintenance of physical plant and transportation of pupils. The amount and date that revenues are received and expenditures incurred are also predictable. The major differences among districts in terms of cash flow are: (1) the portion of total revenues resulting from real property taxes; and, (2) when tax revenues are received.

Cash Receipts Timing

In 1979-80, State aid to school districts was distributed in six installments. Three of the installments--amounting to 8 1/3 percent each--were distributed in September, October and November. The remaining 75 percent was distributed in equal installments in April, May and June (the final three months of the fiscal year for school districts). With the exception of July and August, district expenditures were relatively constant during the rest of the year. With 75 percent of total basic State aid distributed during the final quarter of the fiscal year, a potential cash flow problem arises. The dimensions of this problem depend on the extent to which an individual district relies on State aid for operating purposes.

The Real Property Tax Law provides that city school districts, upon adoption of a resolution, may collect tax revenues in as many as six installments.[2] All other school districts may collect taxes in installments upon enactment of a local law by the county.[3] Generally, school districts receive a significant portion of total tax revenues in September or October. Notable exceptions include Nassau and Suffolk Counties where major tax collections occur in the third and fourth quarters of the school district fiscal year.

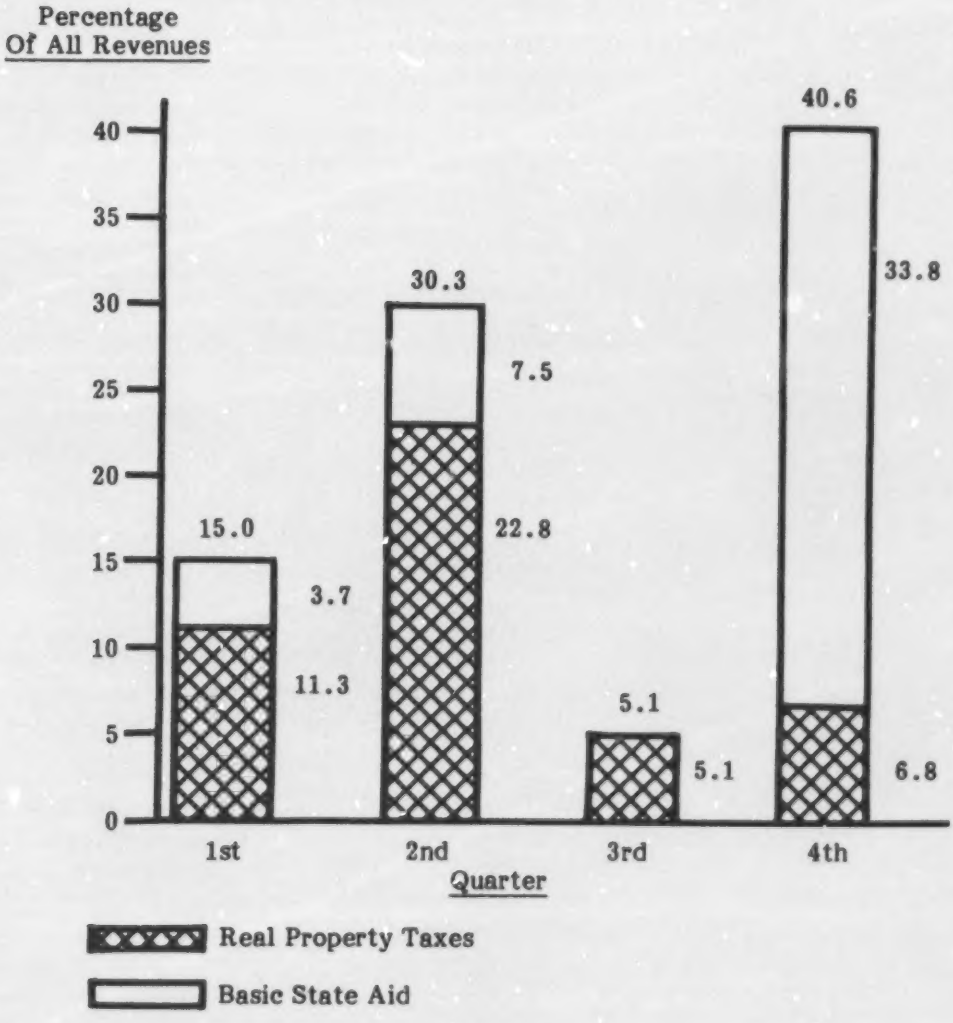
For the 173 school districts responding to the LCER survey, dependency on tax revenues ranged from 13 to 88 percent of total revenues. The average dependency for this group is 46 percent. While several categories of State aid provide the bulk of other operating revenues (i.e., lottery aid, textbook aid, etc.), basic State aid alone averaged 45 percent of total revenues. Thus, in the average district, tax revenues and basic State aid represented 91 percent of total funding available for operating purposes during the 1979-80 school district fiscal year.

Basic State aid was received by districts based on the timetable described earlier in this section. Tax revenues are received at various times based on local law. On average, 24.5 percent of such revenues were received in the first quarter of the school district fiscal year, 49.6 percent during the second quarter and 11.1 percent in the third quarter. The remaining 14.8 percent was collected during the last three months of the fiscal year when 75 percent of the district's basic State aid was also received.

By analyzing the percentage of total revenues from real estate taxes and basic State aid, and establishing the relationship between these primary revenue sources and total revenue, it is possible to calculate the approximate percentage of revenues received at various points during the 1979-80 school district fiscal year (Chart 1). For that year, the average district received 40.6 percent of combined tax revenues and basic State aid during the last quarter.

Chart 1

Real Property Taxes and Basic State Aid
Revenue Collections By Quarter
1979-1980



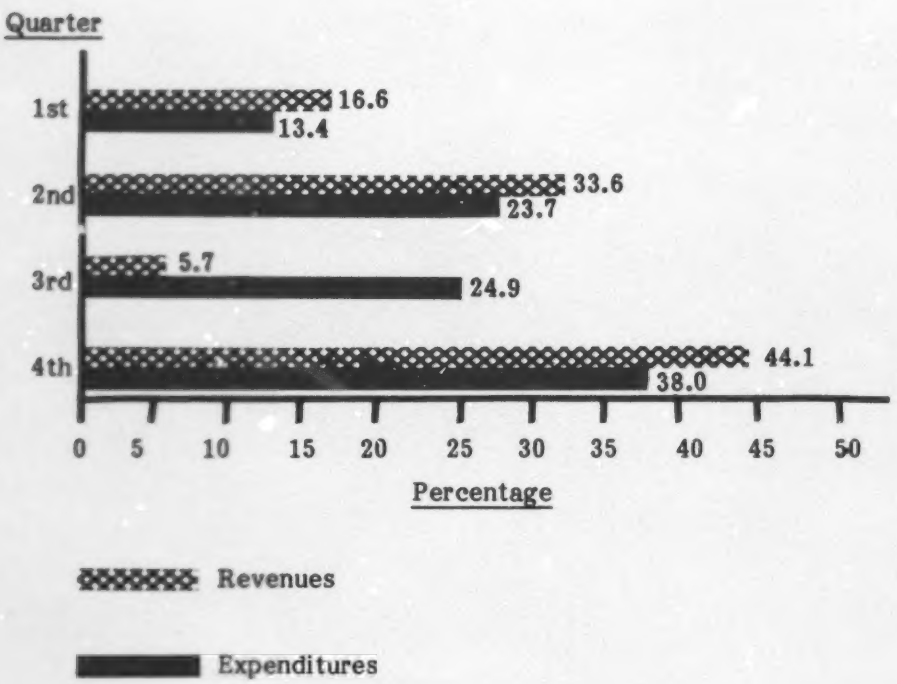
Source: LCER analysis of questionnaires.

Cash Disbursements Timing

A significant portion of total school district expenditures involves salaries, fringe benefits, operation of physical plant and transportation of pupils. For the 28 districts visited by LCER staff, instructional salaries and fringe benefits averaged 73 percent of total school district general fund expenditures. Of the total disbursements for the 1979-80 fiscal year, 13.4 percent occurred during the first quarter, 23.7 percent in the second quarter, 24.9 percent in the third quarter and 38.0 percent in the last quarter. Chart 2 provides a comparison of cash received and disbursed in the average school district for the 1979-80 fiscal year. With the exception of the third quarter (January 1 to March 31), revenues exceeded expenditures on a quarterly basis.

Chart 2

Percentage Distribution
Revenues and Expenditures by Quarter
of School Fiscal Year
1979-1980



NOTE: LCER analyzed receipts for 91 percent of all revenues in the average district. The remaining nine percent is allocated to the four quarters based on the actual timing of receipts for 91 percent of revenues.

Source: LCER questionnaires.

This analysis suggests that a cash flow problem does not exist for the average school district other than during the third quarter of the fiscal year. However, it is important to note that expenditures begin immediately following the July 1 opening of the school fiscal year and substantial revenues generally are not collected until after September 1. Additionally, survey results showed that 66 percent of the districts incurred interest expense for temporary borrowing. In Nassau and Suffolk counties, 29 of 31 districts (95 percent) borrowed funds for operating purposes during the 1979-80 school fiscal year.

Cash Forecasting

Cash forecasting involves predicting when revenues will be received and expenditures incurred and indicates periods during the year when temporary borrowing may be necessary. The forecast will also identify when cash is available for investment and the length of time for which investments may be placed. Because there are few major categories of revenue and expenditure in school districts, the cash forecasting process is simplified. Ninety-six percent of the districts responding to the LCER survey indicated that a cash forecast was prepared. Additionally, 90 percent of the districts with a cash forecast indicated that the forecast was periodically compared with actual cash flow.

LCER staff found from field visits that cash forecasts were prepared and generally included sufficient detail to allow efficient cash management. However, many of the districts maintained large balances in checking accounts suggesting that while they had adequately projected periods of cash surplus or shortage, the projection was not always used to make investment or borrowing decisions. This issue is covered in greater detail in the case studies.

Investments

School districts may invest cash in savings accounts, certificates of deposit, repurchase agreements and government obligations. For the 1979-80 fiscal year, certificates of deposit were the most popular investment instrument. Districts responding to the LCER survey indicated that 82.7 percent of the 799 outstanding investments at November 30, 1979, were certificates of deposit.

Investment Policy

The Education Law (Sections 1604-a and 1723-a) provides the legal framework permitting boards of education to authorize the investment of cash. The State Education Department has recommended that school districts implement this authorization through the development of a school board policy on investments.[4] Specifically, SED suggests that district policies include statements of purpose and safeguards and a delegation of authority for management of the investment program. The focus of the investment policy is administration of the investment program to assure:

--The continual process of temporary investing of all fund balances and monies available to the district for investment purposes;

--The maintenance (revised following each cash transaction) of a yearly cash flow chart that will provide data to assist proper planning and

decision making regarding amount, duration, and type of investments for the school district;

--The utilization of an open competition system of bids and/or quotes to obtain maximum yield possible on all investments from both in-district and out-of-district financial institutions; and

--That all school district investments will be in compliance with Sections 1723-a and 2131 of the Education Law.[5]

Of the 173 school districts responding to the LCER survey, 122 (71 percent) did not report the existence of an investment policy. Districts having an investment policy (51 or 29 percent) attached a copy of the policy to the returned questionnaire. A review of policies submitted by school districts disclosed:

--37 districts had adopted policies that authorized an individual or individuals to invest cash but did not provide guidance regarding the investment process;

--Eight districts had policies identical to those suggested by SED;

--Three districts developed policies that restricted investments to local banks (within the district);

--One district required that the individual responsible for the investment program solicit competitive bids from all banks in the area (this district used seven banks for investment purposes and achieved interest income of more than twice the average return for all districts surveyed);

--One district favored local banks for investment purposes only when the interest rate offered was equal to or greater than the rate offered by banks not located within the district; and,

--One district authorized investments in instruments not permissible under Section 1723-a of the Education Law.

Since 73 percent of the investment policies reviewed merely designated the individual responsible for the investment of cash, the effect that a specific investment policy has upon earnings performance is unknown.

Investment Personnel and Training

In 68 percent of the responding school districts, the district treasurer or business manager is responsible for the investment program. Others assuming this responsibility include the district clerk (12.7 percent), the assistant superintendent for business (10.4 percent) and the superintendent (5.2 percent).

Fifty-four of the 173 responding districts (31.2 percent) indicated that investment training had been received. The source of training was indicated for 32 of these districts and included SED (11), professional associations (9), local banks (4) and other (8). The remaining 22 districts did not indicate what organization had provided the training.

Training received did not have a positive effect on investment performance. Of the 54 districts receiving training, 32 (59 percent) earned lower than average interest income while 66 (56 percent) of the districts with no training fell below the average.

Investment Performance-Selected Districts

The investment performance of school districts may be evaluated by comparing the yield (return on investment expressed in dollars or percentage) received on individual investments and represents one method used by LCER staff to assess investment performance among school districts. To achieve valid comparisons, individual investments selected for evaluation must be similar in:

--Amount,
--Date of purchase, and
--Maturity.

Districts were asked to list all outstanding investments at four separate dates during the 1979-80 school fiscal year. The dates selected were November 30, December 31, January 31 and April 30. A review of outstanding investments for these dates revealed the greatest number (799) at November 30. Of the 799 investments, 127 (16 percent) were similar in size and maturity and were selected for comparison. Table 2 shows the 127 investments by amount, maturity and average yield (interest rate) for each group. Of the 127 investments, 111 (87 percent) were certificates of deposit and 16 (13 percent) were repurchase agreements.

While amounts and number of days invested were similar for each investment group, the date that investments were purchased ranged from September 11 to November 30. Comparing all investments in a particular group (i.e., $100,000 for 30-35 days)

Table 2

Comparable Investments For School Districts
Outstanding at November 30, 1979

Investments		Maturities and Yield					
		30-35 Days		59-64 Days		89-93 Days	
Amount	Number	Number	Percent	Number	Percent	Number	Percent
$ 100,000	57	20	13.65	19	12.39	18	12.11
150,000	10	--	--	10	12.37	--	--
200,000	24	10	12.78	7	12.29	7	12.04
250,000	6	--	--	6	13.00	--	--
400,000	12	5	12.41	7	12.97	--	--
500,000	11	11	12.77	--	--	--	--
1,000,000	7	7	12.43	--	--	--	--
Total	127	53		49		25	

Source: LCER analysis of questionnaires.

was not possible since major fluctuations in interest rates on short-term investments occurred during the last quarter of 1979. Because of the volatile nature of interest rates on short-term investments purchased during this time period, only investments purchased on the same date were compared. This reduced the number of comparable investments to 17. While the sample is small and may not produce an accurate picture of the typical investment activity for school districts, it does identify factors which may affect investment yield. The results of this analysis for each group follow:

Investment size: $100,000
Days invested: 30-33
Number of investments: 9
Maximum rate variation: 1.00 percent

In this group, downstate districts (Nassau, Suffolk and Westchester counties) consistently achieved higher rates, in one case with a shorter maturity (two days). Upstate, one district located near Buffalo achieved a rate .72 percent higher than a rural district purchasing a longer term investment (31 day repurchase agreement compared to 30 day certificate of deposit).

Investment size: $100,000
Days invested: 60-63
Number of investments: 4
Maximum rate variation: .84 percent

An upstate district located near Rochester achieved an interest rate .84 percent higher than a rural district investing locally.

Investment size: $150,000
Days invested: 60-64
Number of investments: 4
Maximum rate variation: 1.87 percent

Downstate districts received higher rates than upstate districts. The largest variation (1.87 percent) occurred between two rural upstate districts located approximately 40 miles apart.

A review of these investments suggests that higher interest rates can be achieved by seeking competition among banks. Downstate banks paying higher rates of interest are a possible source of competition for upstate districts.

Investment Peformance-All Districts

Investment performance also may be assessed by comparing total interest income received by districts. Since the dollar amount of interest income can be expected to fluctuate from district to district based on its size, an alternate indicator of performance is necessary. The alternative selected is the relationship that interest income (expressed as a percentage) bears to total general fund expense. For the 1979-80 school fiscal year, this calculation had been made by SED for all financially independent school districts in New York State.

Interest income as described above ranged from .06 percent to 6.45 percent for the 173 districts responding to the LCER survey. The average rate for this group is 1.5 percent.

This portion of the investment performance evaluation examines the effect on investment income as a result of:

--The district's reliance on tax revenues as a percentage of total revenues,

--When tax revenues are received,

--The district's location within the State, and

--The number of financial institutions (banks) used for investment purposes.

Reliance on Tax Revenues. Districts responding to the LCER survey were divided into four groups based on the percentage of real property taxes to total general fund expense. The categories selected and the number of districts in each category follow:

	Reliance On Tax Revenues			
	13% to 25%	26% to 50%	51% to 75%	76% to 88%
Number of Districts	18	94	48	9
Percent of Total	10.7	55.6	28.4	5.3

(Note: Only 169 of 173 districts included sufficient data to calculate reliance on tax revenue).

The most successful districts are in the 51 to 75 percent group where 40 of 48 (83 percent) achieved higher than average interest income. The least successful districts rely on tax revenues for 13 to 25 percent of total support with 14 of 18 districts (78 percent) falling below the average. The 26 to 50 percent category had the largest number of districts but only 22 of 94 districts (23 percent) obtained interest income results above the average.

As mentioned in the cash flow section of this report, school districts rely on property taxes and basic State aid for an average of 91 percent of their revenues. As the reliance on tax revenues increases, the reliance on basic State aid decreases. Since 75 percent of a district's basic State aid is received during the last quarter of the school fiscal year, the lower the reliance on this form of support--the higher the rate of investment performance. With 66 percent of the responding districts receiving less than half of their total operating funds from real property taxes, a poorer investment performance for this group is not unexpected.

When Tax Revenues Are Received. To assess the impact that receipts timing has upon investment performance, three dates during the 1979-80 fiscal year were selected and the percentage of tax revenues collected at those dates was reviewed. Dates selected were September 30, December 31 and March 31 (25 percent, 50 percent and 75 percent of the fiscal year elapsed respectively).

For the first review date (September 30), districts were separated into three groups: those receiving no tax revenues; those receiving tax revenues between one percent and

25 percent; and, those receiving more than 25 percent of all tax revenues as of September 30. The number of districts in each category is:

Percent of Taxes Received	Number of Districts
0%	34
1% to 25%	62
more than 25%	73
Total	169

(Note: Four districts did not include data on taxes received.)

For districts receiving no tax revenues through September 30, 25 of the 34 districts (74 percent) performed better than the 1.5 percent average. However, as the percentage of tax revenues collected increased, the percentage of districts above the average decreased. In the one percent to 25 percent group, above average school districts declined to 52 percent (32 districts) and declined further to 22 percent (16 districts) in the more than 25 percent taxes received group. A similar trend occurred at December 31, 1979 and March 31, 1980 as shown in Table 3.

The results of this analysis are the reverse of expected outcomes and indicate that school districts receiving tax revenues earlier in the fiscal year do not perform as well as districts receiving their tax revenues later. Further analysis indicates that this outcome is accurate only for districts receiving less than 50 percent of their total support from real property taxes. For districts receiving more than half of their total funding from this source, investment performance improves with early tax collection as shown in Table 4. This analysis suggests that for districts receiving less than half of total operating funds

Table 3

Investment Performance by Percentage of Taxes Received at December 31, 1979 and March 31, 1980

	December 31, 1979			March 31, 1980		
Percent of Taxes Received	Number of Districts	Districts Above Average	Percent Above Average	Number of Districts	Districts Above Average	Percent Above Average
0%	8	7	87	--	--	--
1% to 50%	25	16	64	--	--	--
1% to 75%	--	--	--	39	27	69
51% or more	136	50	37	--	--	--
76% or more	--	--	--	130	46	35

Source: LCER analysis of questionnaires.

Table 4

Investment Performance by Percentage of Taxes Received
and Percent Reliance on Tax Revenues
1979-80

Date and Percent of Taxes Received	Reliance on Tax Revenues: 1 - 50 percent — Number of Districts	1 - 50 percent — Districts Above Average	1 - 50 percent — Percent Above Average	51 percent or more — Number of Districts	51 percent or more — Districts Above Average	51 percent or more — Percent Above Average
September 30:						
0%	12	6	50	22	18	82
1-25%	39	13	33	23	19	83
26% or more	61	6	10	12	10	83
December 31:						
0%	2	1	50	6	4	66
1-50%	8	4	50	17	11	65
51% or more	102	20	20	34	30	88
March 31:						
1-75%	11	5	46	28	21	75
76% or more	101	20	20	29	26	90

Source: LCER analysis of questionnaires.

from real property taxes, accelerated receipt (higher than the percentage of year elapsed) does not improve investment performance. In general, the lower performance for this group and the absence of improved performance as the percentage of taxes received increases may result because:

--Where the percentage of taxes received is low, all tax revenues received are immediately necessary for operating purposes and repayment of temporary borrowing,

--As the percentage of taxes received increases, the need for temporary borrowing decreases, but immediate operating needs leave little cash available for investment purposes.

Districts in the below 50 percent tax reliance group represent 66 percent of all responding districts. These districts represent the group most adversely affected by the current distribution formula for basic State aid.

Geographic Location. The 173 districts in the LCER survey were divided into five groups based upon geographic location and proximity to cities of various population size. The categories are:

--Downstate counties of Nassau, Suffolk and Westchester,

--Upstate counties with cities of 100,000 population or more,

--Upstate counties with cities between 40,000 and 99,999 population,

--Upstate counties with cities between 25,000 and 39,999 population, and

--Upstate rural.

In total, 74 (43 percent) of the 173 districts achieved investment performances above the 1.5 percent average. The distribution above and below average fluctuates markedly however, when performance is based upon the five location criteria referred to above. The poorest performers were upstate rural districts where 73 percent (62) were below average. The best performers were downstate districts where 34 of 41 responding districts (83 percent) achieved higher than average interest income. This performance corresponds with the higher interest rates on individual investments observed through a comparison of such investments on a statewide basis.

Upstate counties with cities over 100,000 population recorded the second best performance with 42 percent (eight of 19 districts) above the average, a significant decrease from downstate performances. Districts in the remaining two upstate categories performed about the same with five of 16 (31 percent) and four of 12 (33 percent) districts achieving higher than average results. In addition to achieving the highest investment performance, 32 of the 41 districts (78 percent) in the downstate group also incurred interest expense in connection with temporary borrowing for operating purposes.

Number of Banks Used. As mentioned in Chapter I, an effective school district cash management program requires a mutually beneficial relationship with banks. Banks may assume a wide variety of roles in the cash management process. LCER staff field visits revealed wide variance in banking services offered to school districts. All districts visited received checking, savings and investment services from one or more banks. In addition to these basic services, many districts obtained interest bearing checking accounts (NOW accounts), free checks and reconciliation of accounts, wire transfer capability for investment purposes and no minimum balance requirements for checking accounts. Only one of the 28 districts visited was required to maintain a minimum compensating balance in a checking account as payment for services rendered by the bank.

LCER staff observed that the cost of banking services varied from district to district, depending to an extent on banking policies, the size of school budgets and competitive bidding among banks. For example, one district received interest on its checking account while another did not. In another instance, a district had to maintain a minimum balance in a NOW account while another did not.

LCER staff were informed by personnel in two districts that the number and type of banking services being offered had increased because of competition among banks to secure school district accounts. However, in 19 (68 percent) of the school districts visited by LCER staff, banking services were not bid.

Local governing boards designate by resolution the banks for all school district financial transactions. Such designation restricts investment activity by school personnel. For example, in one district, investment personnel were informed not to diversify their investments in too many banks and to do business with the two banks designated by the board. In another district, the administrator was aware of higher interest rates available at banks other than the ones designated by the board of education. Since statewide banking is permitted by statute, school districts can bid for banking services. LCER staff

were informed by one district that its use of a formal bidding process resulted in greater banking services at lower cost.

A question in the LCER survey--to which 173 school districts responded--asked districts to list the name, location and the types of services provided by banks to the school district. Banking services to be identified by districts included investments, demand deposits and temporary borrowing. The responses provided the following information:

--Of 56 districts with interest earnings of less than one percent, 41 (73.2 percent) used one or two banks and 15 (26.8 percent) used three banks.

--Of 60 districts with interest earnings between 1.5 percent and 2.9 percent, 24 (39.3 percent) used one or two banks and 36 (60.7 percent) used three or more banks.

--Of 32 districts with interest earnings between 2 percent and 2.9 percent, 21 (65.6 percent) used three banks and 11 (34.4 percent) used one or two banks.

--Of 13 districts with interest earnings of more than three percent, nine (69.2 percent) used three or more banks and four (30.8 percent) used only one bank.

--Of these 13 districts, nine (69.2 percent) had interest income between three percent and 3.9 percent, three (23.1 percent) had interest income between four percent and 4.9 percent, and one (7.7 percent) had interest income of 6.5 percent.

In reviewing the statistical data on earnings from investments, LCER staff observed that districts with higher yields can be characterized as having active investment programs and generally use three or more banking institutions. Although some districts earned lower interest while using three banks, other factors may have influenced their low return. These might include: lack of investment policies and procedures; a failure to estimate cash flow; inadequately trained investment personnel; improper selection of investment instruments; and, the absence of competitive bidding.

Investment Performance-Highest Versus Lowest

The 17 districts achieving the highest percentage of interest income were compared to 17 districts with the lowest percentage. This comparison, representing approximately 20 percent of all responding districts, supported findings resulting from other methods of investment program analysis.

Specifically, LCER staff found:

--41 percent of the best performance districts are located in the downstate counties of Nassau and Suffolk while only 17 percent of the poorest performance districts are located there.

--Districts with the best performance relied on real property taxes for an average of 60 percent of total operating support. The lowest performance

districts received only 39 percent of total operating revenues from taxes and relied heavily on basic State aid.

--Districts with lower performance generally received tax revenues earlier in the fiscal year but 14 of the 17 (82 percent) districts in this group still had to borrow funds. Interest expense as a result of borrowing averaged .28 percent of total general fund expense compared to interest income averaging .42 percent.

--Of the 17 districts achieving the highest performance, the ten located upstate relied least upon temporary borrowing. In this group, three districts (30 percent) incurred average interest costs of .13 percent. The average interest earned for this group of upstate districts is 3.43 percent. Conversely, the seven higher performing downstate districts all borrowed funds temporarily and incurred interest expense averaging 1.44 percent compared to interest income averaging 4.04 percent. The high earnings performance strongly suggests that these districts borrow funds temporarily not only for operating purposes, but also for investment. The need for this borrowing is unquestioned with downstate districts (Nassau and Suffolk counties) receiving only 25 percent of total revenues as of December 31--the halfway point in the fiscal year. However, the use of borrowed funds for investment purposes represents arbitrage and is in violation of the Internal Revenue Code. Upstate districts with the best performance had received an average 54 percent of all revenue by December 31.

In general, a comparison of the highest and lowest performance districts indicated that high reliance on tax revenues and the receipt of those revenues early in the fiscal year results in the highest interest income. Some districts with high reliance on tax revenues which are not received early in the year have attained similar investment performance by borrowing funds for investment purposes.

Districts relying to a greater extent on State aid do not perform as well regardless of when tax revenues are received because those funds are required almost immediately for operating purposes.

Site Visits

In the 28 school districts visited, LCER staff interviewed district personnel including superintendents, assistant superintendents for business, district treasurers and school clerks. District personnel were interviewed on cash management and investment policies. In addition, districts were asked to provide information concerning competitive bidding for banking services, the use of planned balances, the types of district investments and personnel responsible for investment activities. To determine the amount of cash available for investments, general fund bank statements for two months were reviewed by LCER staff and calculations made of the average daily balances in such accounts.

As shown in Appendix B, 27 of 28 school districts had cash deposits of $22,162,000 in checking and/or savings accounts, earning either minimal interest or no interest. Of this group, 12 districts had $6,572,000 in interest bearing savings accounts, ranging from $25,000 to $1,530,000. Fifteen districts had $6,540,000 in non-interest bearing checking accounts ranging from $23,000 to $1,322,000. Five districts had all uninvested cash ($2,618,000) in non-interest bearing checking accounts. Further analysis of accounts

showed that 13 districts had deposits totaling $9,050,000 in low interest bearing checking accounts; these deposits ranged from $81,000 to $2,015,000.

Although some cash on deposit in school district accounts is considered reasonable, many of the districts visited by LCER staff maintained high balances in non-interest bearing or low interest bearing accounts. The average two-month balance in such accounts for the 27 school districts was $821,000.

Uninvested cash for school districts visited by LCER staff is shown by county:

County	Amount
Albany	$ 374,000
Broome	1,962,000
Clinton	1,004,000
Erie	1,862,000
Franklin	633,000
Onondaga	3,093,000
Rensselaer	488,000
Suffolk	8,615,000
Tompkins	308,000
Westchester	3,824,000

School Borrowing and Investments

A review of school districts' borrowing and investment practices for 1979-80 showed that seven (25 percent) of the 28 school districts were investing the proceeds of temporary borrowing. In one district a tax anticipation note totaling approximately $17 million was invested in certificates of deposit and repurchase agreements. In another district LCER staff were told that $800,000 was being borrowed during July for long term investment purposes. Although the practice of investing monies raised from tax anticipation and revenue anticipation notes is considered by the State Comptroller to be "violative of sound fiscal and public policy and is without legal authority", it still continues.[6] LCER staff also found that one of the seven districts was borrowing funds and investing with a stock brokerage firm, a violation of the Education Law. Furthermore, this district had been doing so for a number of years and was unaware of its illegal actions.

Analysis of investments made by districts indicated a lack of knowledge concerning appropriate investment activity. One district was investing at a lower rate of interest when other investments were paying higher rates. A second district had cash totaling $629,000 in an interest bearing savings account, while certificates of deposit and repurchase agreements were paying almost double the savings account interest rate. Another district with available cash had made only two investments during an entire school fiscal year.

Planned Balances

The planned balance permits school districts, with voter approval, to carry over sufficient revenues from one fiscal year to pay bills for the first 120 days of the next fiscal year, thereby reducing the need to borrow. Four of the districts visited maintained

such balances. However, one district indicated that the amount needed for general fund expenditures during the 120 days had grown larger than the balance. LCER staff found that the use of planned balances was decreasing as a result of voter resistance to increased school costs.

District Similarities and Differences

Site visits revealed a number of similarities and differences among districts. For example, 19 districts deposited their revenues in interest bearing instruments. However, only four of 28 districts requested formal quotes on interest rates to be paid for investments. In all instances LCER staff were informed that the board of education had designated banks as depositories and for investment purposes.

The amount of tax revenues and when they were received affected school district investment programs. Twelve of 28 districts received most of their tax revenues between September and October of the school fiscal year and they were able to invest for longer maturities. School districts in Nassau and Suffolk counties received their tax revenues throughout the fiscal year, with most tax revenues coming in January and June. LCER staff found that formal cash flow charts and cash forecasting procedures varied from district to district. In some districts, a professional accountant projected district revenues and expenditures. In others, a district clerk, also appointed as a part-time treasurer, kept records of all financial transactions and made all investments. There were no standardized cash management procedures for the districts. In one district, the treasurer indicated that a cash flow projection was made "as needed." Cash management for investment purposes was not considered a priority business activity in school districts. Another district analyzed its cash flow chart carefully and relied on the analysis to make investment decisions.

School District Opinions

The questionnaire also requested information about factors beyond school district control which adversely affect cash management. Of the 173 questionnaires returned, 105 included a response to this request.

The factor cited most often as adversely affecting the cash management process was the formula for distribution of basic State aid. Of 105 responses, 50 offered suggestions to change the formula to provide a more even distribution of State aid during the school fiscal year. The Legislature has taken steps to change the flow of State aid to school districts and make it more uniform throughout the school year. For example, during the 1979-80 school year 75 percent of basic State aid was received during April, May and June. During the 1980-81 school year, the State aid received over the same three months totaled 70.6 percent with 4.4 percent shifted to the January to March quarter. It is anticipated that other changes in the State aid formula will make the receipt of these funds more uniform in future years.

Other suggestions offered by school district officials included:

--Transmittal of State aid by wire transfer to permit the immediate investment of temporarily surplus funds;

--Legislation permitting use of savings banks for investment purposes;

--Increase available training through workshops;

--Development of an advisory network to assist rural districts in determining if locally offered interest rates are competitive;

--Allow pooling of cash among districts to permit larger investments at higher interest rates;

--Change local ordinance to provide tax revenues earlier in the fiscal year.

Cash Management Alternatives

This evaluation of school district cash management, together with a review of investment pooling operations in several states (Appendix C), suggests a number of alternatives which could improve investment performance. Some of the alternatives listed below could be implemented locally (within the district) while others would require action at the State level.

--Deposit all cash in interest bearing accounts. Of 28 districts visited, 15 had cash on deposit in non-interest bearing checking accounts. Those 15 districts lost substantial interest income during the two-month review period because they did not use NOW accounts.

--Investment pooling. The State Comptroller has ruled that school districts may pool cash with BOCES and other school districts for investment purposes. At LCER's request, the Comptroller issued an opinion dated December 17, 1981 advising that school districts also may jointly invest with towns or villages (Appendix D). However, none of the 173 districts responding to an LCER questionnaire had pursued this alternative. The advantage of higher interest rates which may be obtained from investment pooling--especially for smaller districts--is therefore lost. This investment strategy is offered to school districts in neighboring states through state-wide investment pools.

--Increase the number of banks used for investment purposes. Districts using more than three banks for investment purposes generally achieved better performances. Increased competition among banks was shown to improve the investment performance of school districts.

--Decrease reliance on day of deposit/day of withdrawal savings accounts. Of 28 districts visited, 12 had cash on deposit in this type of account with a total two-month average balance of $6,572,000. These deposits earned interest at 5-1/4 percent annually during 1979-80. Certificates of deposit (with maturities as short as 14 days) and repurchase agreements (one or more days maturity) were paying interest rates about twice as high as savings accounts during much of 1979-80.

--Assistance. The State Education Department provides cash management assistance to school districts but generally only at their request. Many school districts would benefit from individualized investment training and investment advice.

Chapter Summary

● Assistance available to school districts regarding cash management is generally limited to publications issued by the State Education Department and the Department of Audit and Control. While individualized assistance can be provided by SED or A & C on request, the maximization of interest income through an aggressive cash management/investment program is not considered a priority business activity by school districts.

● The receipt of tax revenues varies widely from district to district; State aid is provided to all districts by the same formula. During the evaluation period, 75 percent of basic State aid was provided during the final three months of the fiscal year. For districts relying heavily on State aid for support, this distribution often creates negative cash flow requiring temporary borrowing.

● Of the factors affecting investment performance, the extent to which a district relies on tax revenues and its geographic location are the most significant. Downstate districts (those located in Nassau, Suffolk and Westchester counties) and districts located in counties with a city of 100,000 population or more, consistently performed better than rural districts. Also, districts relying on real property taxes for 50 percent or more of total operating revenues performed better than districts with tax reliance below 50 percent.

● School district investment policies and procedures adopted by school district boards of education are generally limited to the designation of the individuals responsible for cash management and provide little specific guidance to cash management personnel.

● Districts seeking services from several banks for both investment transactions and other banking services achieved better investment performance and received a wider variety of services, often at lower cost, than districts using only one bank. This suggests that competition among banks for school district funds provides certain advantages to school districts.

● For the 28 districts visited by LCER staff, cash balances on deposit in checking accounts (interest and non-interest bearing) and savings accounts ranged from $48,000 to $3,044,000. This range reflects average daily balances for two months when revenue collections were higher than normal.

● School districts suggested change in the distribution formula for basic State aid. Generally, the recommended change called for a more even distribution of State aid over the school fiscal year instead of the 1979-80 distribution formula which provided 75 percent of such funding in the last quarter of the year. In 1980-81, the Legislature altered the formula to provide 4.4 percent of total basic State aid in the third quarter. This action reduced basic State aid distributed during the last quarter of the year to 70.6 percent.

FOOTNOTES

II Cash Management and Investments

1. Letter from Chief, Bureau of Educational Management Services, State Education Department, dated August 4, 1981.
2. Real Property Tax Law, Section 1326, (1)(2).
3. Real Property Tax Law, Section 1336, (1).
4. The Commissioner's Advisory Committee for School Business Administration, The Investment of School Funds, 1976, p. 1.
5. Ibid., p. 2.
6. New York State Department of Audit and Control, Statement of Policy Relative to Municipal Borrowing for Investment Purposes, 1966, p. 1.

APPENDIX A

LIST OF INTERVIEWS AND CONTACTS

New York State Education Department

Executive Deputy Commissioner
Deputy Commissioner for Elementary, Secondary and Continuing Education
Assistant Commissioner for Educational Finance, Management and School Services
Director, Division of Educational Finance
Administrator, Educational Facilities and Management Services
Chief, Bureau of State Aided Programs
Chief, Bureau of Educational Management Services
School Bond Advisor, Bureau of Educational Management Services
Supervisor, Bureau of Educational Management Services

New York State Department of Audit and Control

Deputy Comptroller, Division of Municipal Affairs
Director, Bureau of Municipal Affairs-Examinations
Assistant Director, Municipal Research and Statistics
Program Research Specialist III (Municipal)

New York State School Boards Association

Executive Director
Director of Research
Consultant to the Association

New York State Association of School Business Officials

Executive Director

School Districts Visited

Amherst
Amityville
Beekmantown
Binghamton
Clarence
Cold Spring Harbor
East Syracuse
Elmsford
Groton
Half Hollow Hills
Hoosick Falls
Lindenhurst
Malone
North Salem
North Syracuse
Orchard Park
Pelham
Plattsburgh
Rensselaer
Sag Harbor
Scarsdale
South Colonie
South Manor
Tonawanda
Union-Endicott
West Babylon
White Plains
William Floyd

Investment Pooling-Site Visits

Fiscal Analyst, Massachusetts Municipal Depository Trust
Fiscal Analyst, New Jersey Cash Management Fund

Investment Pooling-Telephone Interviews

Fiscal Analyst, Connecticut Short-term Investment Pool
Fiscal Analyst, Pennsylvania Local Government Investment Trust

APPENDIX B

SCHOOL DISTRICT UNINVESTED CASH
AVERAGE DAILY BALANCE-TWO MONTH TEST PERIOD
SCHOOL FISCAL YEAR 1979-80

School District	Checking Accounts: Non-Interest Bearing	Checking Accounts: Interest Bearing	Savings Accounts	Total
1	$ 374,000	--	--	$ 374,000
2	1,192,000	--	--	1,192,000
3	--	$ 770,000	--	770,000
4	307,000	--	--	307,000
5	68,000	--	$ 629,000	697,000
6	370,000	--	256,000	626,000
7	143,000	--	270,000	413,000
8	487,000	--	--	487,000
9	--	336,000	--	336,000
10	376,000	--	257,000	633,000
11	1,221,000	--	1,530,000	2,751,000
12	--	81,000	261,000	342,000
13	197,000	--	243,000	440,000
14	23,000	--	25,000	48,000
15	32,000	--	276,000	308,000
16	170,000	--	471,000	641,000
17	258,000	--	--	258,000
18	--	432,000	--	432,000
19	--	399,000	1,084,000	1,483,000
20	--	2,015,000	--	2,015,000
21	--	1,278,000	--	1,278,000
22	--	1,507,000	--	1,507,000
23	--	1,000,000	--	1,000,000
24	--	147,000	--	147,000
25	--	263,000	--	263,000
26	--	370,000	--	370,000
27	1,322,000	452,000	1,270,000	3,044,000
Total	$6,540,000	$ 9,050,000	$6,572,000	$22,162,000

Source: LCER staff visits to school districts.

APPENDIX C
INVESTMENT POOLING

Local government investment pooling, now in existence in 15 states, is designed to increase the interest income earned by municipalities. The concept involves the daily deposit of "idle cash" by units of local government to allow consolidated investments. Supporters of investment pooling suggest several advantages associated with this cash management alternative. The advantages most often cited include: higher yields resulting from larger investments; professional pool management; and, convenience to local governments since their investment activity is significantly reduced. Opponents of investment pooling cite the loss of cash deposits to local banks as a major disadvantage of such pools.

The Massachusetts Investment Pool

Massachusetts enacted legislation in 1975 authorizing the State Treasurer to establish an independent investment pool in which local municipalities, including school districts, could invest their "idle cash." The pool, the Massachusetts Municipal Depository Trust (MMDT), started in July 1979 with a $10 million deposit from the State's General Fund. While MMDT operations are overseen by the Massachusetts State Treasurer, pool management is provided under contract by the Fidelity Management and Research Company--a Boston-based investment management firm. MMDT is governed by an advisory board with daily approval from the State Treasurer's office required for investments placed. Services of MMDT include deposit/withdrawal transactions by wire or check, no minimum in transaction amount and no minimum deposit period. State and federal aid to municipalities can be deposited directly to the investment pool if the municipality so elects. MMDT's stated objectives are to provide a safe and liquid investment portfolio and maximum yields to participating municipalities.

The pool is operated by one fiscal analyst, with technical professional computer operators and clerical assistance. Membership in MMDT is open to regional school districts, cities, towns, public retirement systems, housing authorities, regional transit authorities, special purpose districts and certain public agencies. Each can open as many accounts as necessary.

Any fiscally independent school district in the state can participate in MMDT regardless of its size or budget. As a general rule, districts which have professional cash managers are more likely to participate. All districts can invest cash in the pool at any time. Participation by local municipalities in MMDT has created a negative attitude in the banking community since some school districts had deposited funds in local banks. MMDT also has encouraged school districts to establish and maintain good relations with local banks.

MMDT provides advisory services to any municipality. Seminars also are held and newsletters are sent to pool participants on a regular basis to publicize the pool.

The MMDT fiscal analyst interviewed by LCER staff stated that many districts maintain their own investment programs even though they participate in the pool. LCER staff were advised that some of these are professionally managed districts, and in placing their own investments will do as well as MMDT. Other district cash managers, in need of investment training, learn from the MMDT operation.

MMDT limits its investments to safe, high quality money market instruments which include certificates of deposit, repurchase agreements, obligations guaranteed and issued by the United States of America, banker's acceptances and commercial paper. However, no investments are made for longer than a year and no more than ten percent of the total assets will be invested in securities of one issue. All investments also must qualify under Massachusetts statute requirements.

The New Jersey Investment Pool

New Jersey legislation enacted in 1977 permits municipalities, counties and school districts to invest cash in a short term investment pool operated by the State. The New Jersey Cash Management Fund (The Fund) is governed by an appointed ten member investment council and a director. Regulations promulgated by the investment council are subject to approval by the State Treasurer. The Fund's purpose is the "provision of an economical and convenient means for investing short-term funds at the best rates possible and which are prudent."[1] Services of the Fund include wire and check transfer for deposit and/or withdrawal of funds, no limit on the amount deposited for investment, no restrictions on number of accounts opened by any participant, interest income compounded daily and posted to each account and statements of account issued showing all transactions. The income earned by investors is automatically reinvested at the end of each day.

The Fund is operated by the director and staff of the State Division of Investment with oversight by the investment council and the State Treasurer. Membership in the Fund is open to all counties, school districts and municipalities within the state and other governmental units (upon their written request) desiring to invest "idle cash" in the pool. Of the 570 school districts in the state eligible for participation, approximately ten percent of the smaller districts have invested in the pool. The larger school districts generally manage their own investment programs.

The Fund limits its investments by statute to prime commercial paper issued by a company incorporated in the United States, certificates of deposit issued by national banks or trust companies doing business anywhere within the United States, repurchase agreements, and obligations of the United States Treasury and of certain agencies of the United States government.

The Pennsylvania Investment Pool

Pennsylvania legislation enacted in 1979 authorized the Pennsylvania State Association of Boroughs to provide local units of government, such as boroughs, cities (except Philadelphia), counties, school districts and townships in Pennsylvania with a method of pooling cash for investment in money market instruments. The Pennsylvania Local Government Investment Trust (PLGIT), started on May 5, 1980, is governed by a nine member board of trustees, elected by pool participants representing six types of local governments. The trustees promulgate investment pool regulations and are responsible to local governments. Services of PLGIT to participants include transfer by bank wire or check, no limitation on number of accounts opened or amounts invested, no specific maturity period on investments, redemption by wire, check or telephone, direct transfers of state and federal aid payments, no minimums or maximums on deposits, one day notice on redemptions of investments over $1 million, statements issued monthly for each account showing deposits, withdrawals and interest income received and no fees to participants.

The daily investments of the trust are managed by Financial Management Services (the advisor). The Vanguard Group Inc. of Valley Forge (the administrator) provides the following services: customer service; transfer agent; dividend disbursing agent; administrator of books; distribution of literature; and portfolio accounting. The advisor and administrator are paid monthly fees based on percentages of average daily net assets.

Membership in the pool is available to all 504 school districts in Pennsylvania. To date, 50 districts representing urban, rural and suburban areas are participating. District deposits in the pool are generally at their maximum during July when large amounts of monies from tax anticipation notes are invested.

Although the banking community's reaction to the pool has been negative, school districts are not encountering any difficulties in borrowing funds. The pool limits its investments by statute to certificates of deposit, repurchase agreements, and government securities.

The Connecticut Investment Pool

Connecticut legislation approved in 1972 authorized the State Treasurer to invest cash from municipalities including school districts in an existing State operated investment pool, with co-mingled State funds. The Short-Term Investment Pool (STIP) is governed by a fund manager responsible to the Deputy State Treasurer. A ten member appointed advisory council recommends investment pool operational guidelines and/or policies to the State Treasurer. The prime purpose of STIP is to invest in fixed income securities providing a maximum return consistent with maintaining the safety of principal. STIP services and regulations include a guaranteed interest rate to its participants at the beginning of each month, wire transfer and redemption of funds, day of deposit/day of withdrawal interest income, limitation to one account unless state/federal regulations require otherwise, short and/or long term investments, a minimum opening balance of $10,000 with no limits on amounts deposited thereafter, deposits in even dollar amounts, no collateral requirements, and no minimum maturity dates for investments. Participants in STIP pay no fees for services, since operational expenditures are deducted from the gross income. Net profits, over and above the guaranteed monthly interest income, are distributed to STIP participants at the end of the fiscal year.

Membership in STIP is open to cities, towns, regional school districts, special purpose districts and public retirement systems. Of 168 operating school districts in Connecticut, 15 to 20 districts participate in the pool. Districts operated by municipalities have their own investment programs and also are eligible to invest in STIP. State aid and federal aid payments cannot be sent directly to the investment pool, but must be transferred by wire.

Although the banking community had concerns about STIP, the attitude has changed for three reasons: (1) Banks in Connecticut are highly competitive and can outbid STIP in providing services as well as higher interest rates; (2) STIP makes its investment pool funds available to banks for investments; and, (3) Banks give technical services and advice on investments, which STIP does not offer voluntarily. As a result of this competitiveness, school districts should have no difficulty in borrowing funds.

Investments of STIP, as permitted by state regulations, may include certificates of deposit, repurchase agreements, commercial paper, government securities or federal agency securities, bankers acceptances, student loans and corporate securities or bonds which are rated by Moody's as AA or higher.

New York State Investment Pool

As stated in the 1980 Comprehensive Annual Report of the State Comptroller, New York State operates a "short-term Investment Pool, a device for pooling the major portions of Current Operating Funds for investment purposes." However, municipalities and school districts may not participate in the investment pool.

Investment Pool Comparison

The four local government investment pooling operations discussed in this chapter have many functional similarities. While organizational differences exist (state versus private sector operation), all four pools have similar objectives--maximization of interest income through larger investments within parameters established to provide fund safety and liquidity.

Investments placed by these pooling operations differ from those placed individually by local municipalities. For instance, the pools are permitted to invest in a wider variety of investment instruments, including commercial paper (private sector temporary borrowing) in three of the pools and shares of an investment company in the fourth pool (Pennsylvania).

Though pool membership is open to school districts in all four states, participation has been limited to approximately ten percent. Pool managers suggested that participation was generally sought by smaller districts, with larger districts continuing to operate their own investment programs.

The review of investment pooling operations in neighboring states revealed certain advantages connected with such entities:

--For the smaller municipality with little "idle cash" to invest, the pool may be used as a short term savings account with yields equivalent or higher than those attained for longer term and much larger investments placed directly by the municipality. For example, a New York State school district depositing $5,000 in a day of deposit/day of withdrawal savings account will earn interest at approximately five percent annually. The same deposit in an investment pool would earn interest at rates comparable to the highest paid to investors with significant "idle cash" (over $1,000,000) available for investment purposes. Such deposits in the Massachusetts Municipal Depository Trust during August 1981 paid an average rate of 17.8 percent.

--In those cases where the pool is not utilized by a municipality, its existence provides an additional source of competition to the local banking community. Interest rates obtained locally may be higher as a result of this competition.

--Investment pools can be established with little commitment of state resources (personnel and funding). In Massachusetts and Pennsylvania, pooling activities are managed by organizations outside of government, on a contractual basis. As a result, in those states the cost of pool operation is borne by municipalities participating in the pool.

[1]State of New Jersey, Department of the Treasury, State Investment Council, "Annual Report for the State of New Jersey Cash Management Fund", 1980, p. 2.

APPENDIX D

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER
ALBANY, NEW YORK
12236

EDWARD V. REGAN
STATE COMPTROLLER

Opns St Comp, No. 81-418

MUNICIPAL COOPERATION - Municipal funds (joint investments)
MUNICIPAL FUNDS - Investments - (as joint activity)

EDUCATION LAW, §1723-a; GENERAL MUNICIPAL LAW, §119-o: A school district may invest unneeded moneys on a joint basis with towns or villages where it has the power to invest in such instruments or obligations by itself.

We have received an inquiry requesting our opinion as to whether a school district may pool its idle cash with towns and villages for investment purposes.

In Opns St Comp, 1980, No. 80-202, as yet unreported, we stated that under section 119-o of the General Municipal Law, which authorizes municipal corporations and districts to enter into agreements for the performance of their respective functions, powers or duties on an individual, cooperative, joint or contract basis, a municipality would have the power to jointly invest unneeded moneys with other municipalities since all municipalities have the power to invest their moneys separately (General Municipal Law, §11). We further stated in Opns St Comp, 1980, No. 80-763, as yet unreported, that school districts and boards of cooperative educational services can jointly invest their funds with each other since they both have the power to invest separately and under section 119-o they may perform their respective powers, functions, or duties on a cooperative or joint basis. The question presented to us here is whether school districts may jointly invest their funds with towns and villages.

Section 1723-a of the Education Law provides that union free school districts may invest unneeded funds in special time deposit accounts and certificates of deposit (also see Education Law, §§1624-a, 1804(1), 2503(1), 2554(1) relative to common, central and city school districts, respectively). Towns and villages are also authorized, by section 11 of the General Municipal Law, to invest in these same kinds of instruments. Both sections also allow investment in obligations of the United States and in

obligations of the State of New York. For these kinds of investments, school districts would have the authority under section 119-o of the General Municipal Law to invest unneeded moneys jointly with towns and villages. However, towns and villages are also authorized to invest in obligations guaranteed by agencies of the United States whereas school districts are not and as to these types of obligations, school districts may not make joint investments. School districts and other municipalities may invest in instruments or obligations on a joint basis only if they have the power to invest in such instruments or obligations on an individual basis.

Finally, we stated in Opns St Comp, 1980, No. 80-202, supra, that in the case of certificates of deposit, such investments are subject to penalties for early withdrawals and that in a joint investment situation, one municipality could withdraw its funds unilaterally and subject the other municipality to penalties. It was our view that even though such action would seem to impair the judgment and discretion of a municipal fiscal officer, such a problem could be overcome by simply entering a written agreement whereby both parties agree that where a withdrawal has to be made by one party, for whatever reason, which causes the assessment of penalties or the loss of interest, the party causing such withdrawal shall be liable for all penalties and loss of interest. This principle would also apply to joint investments involving school districts.

Therefore, it is our opinion that a school district may invest unneeded moneys jointly with towns or villages where it has the power to invest in such instruments or obligations by itself.

December 17, 1981

Mr. Ronald J. Saffin, General Associate

THE UNIVERSITY OF THE STATE OF NEW YORK
THE STATE EDUCATION DEPARTMENT
ALBANY, NEW YORK 12234

APPENDIX E

THE EXECUTIVE DEPUTY COMMISSIONER OF EDUCATION

AGENCY RESPONSE

December 2, 1981

Mr. Sanford E. Russell, Director
State of New York Legislative
Commission on Expenditure Review
111 Washington Avenue
Albany, New York 12210

Dear Mr. Russell:

Thank you for the opportunity to review the draft report of the program audit of, "School District Cash Management," which your office recently completed.

In general the report substantiates much of what we in the State Education Department have been aware and on which we are continually concentrating our efforts.

However, I believe that certain portions of the report should be expunged or modified before final publication, viz:

1. On page four, the report states, "At one time the Bureau of Educational Management Services also would conduct studies of Administrative and Business Management Practices of local school districts when requested to do so. State Education Department reported that this service is no longer available because of insufficient staff." This statement is not accurate. The Bureau continues to perform as many as 35 of these studies in each fiscal year.

2. Nassau County, as well as Suffolk County, has a Real Property Tax Collection in the third and fourth quarter of the school district's fiscal year.

3. I understand that, although Comptroller's Opinion 80-202 is not specifically directed to school districts, it does permit them to pool investment funds, either through a BOCES or among themselves, without BOCES participation.

4. The volume of telephone calls about Cash Management which the Bureau of Educational Management Services receives indicates that most school districts are aware of our services and rely heavily upon the information and guidance which members of my staff offer.

In summary, the report is comprehensive and should be beneficial to all concerned with improving Cash Management in New York State's school districts.

Sincerely,

Robert J. Maurer

cc: Commissioner Gordon M. Ambach

PROGRAM AUDITS OF THE

LEGISLATIVE COMMISSION ON EXPENDITURE REVIEW

Manpower Training in New York State, February 16, 1971.*

Narcotic Drug Control in New York State, April 7, 1971.*

Fish and Wildlife Research in New York State, June 24, 1971.

Marital Conciliation in New York State Supreme Court, August 16, 1971.

Construction of Dormitories and Other University Facilities, December 1, 1971.

Office Space for New York State, January 17, 1972.

State Supplied Housing for Employees, February 11, 1972.

Middle Income Subsidized Housing in New York State, February 29, 1972.

New York State Criminal Justice Information System, March 17, 1972.

New York State Division For Youth Programs, April 21, 1972.

Snow and Ice Control in New York State, May 31, 1972.

Urban Education Evaluation Reports for the Legislature, June 30, 1972.

The Role of the Design and Construction Group in the New York State Construction Program, July 7, 1972.

Consumer Food Health Protection Services, August 17, 1972.

Milk Consumer Protection Programs, September 15, 1972.

State University Construction Fund Program, October 5, 1972.*

Surplus and Unused Land in New York State, January 15, 1973.

Evaluation of Two Year Public College Trends, 1966-1971, April 2, 1973.

Educational Television in New York State, July 6, 1973.

Construction of Mental Hygiene Facilities, October 3, 1973.

Community Mental Health Services, October 10, 1973.

The Acquisition and Construction of Drug Abuse Treatment Facilities, January 18, 1974.

State University Health Science Programs, January 24, 1974.

Day Care of Children, February 14, 1974.

State Aid to Libraries, March 4, 1974.

Health Insurance For Government Employees, May 30, 1974.

Civil Service Recruitment of State Professional Personnel, June 17, 1974.

Retail Services Within State Agencies, September 10, 1974.

Nuclear Development and Radiation Control, October 1, 1974.

College for the Disadvantaged, October 15, 1974.

Driver Licensing and Control Programs, October 20, 1974.

State Historic Preservation Programs, November 1, 1974.

Industrial Development in New York State, November 25, 1974.

Programs for the Aged, March 31, 1975.

New York State Fair, April 15, 1975.

New York State Parkways, April 21, 1975.

Tri-State Regional Planning Commission Programs, May 5, 1975.

Foster Care For Children, May 29, 1975.

Disadvantaged Students in Public Two-Year Colleges, July 25, 1975.

Human Rights Programs in New York State, August 18, 1975.

Patients Released From State Psychiatric Centers, August 29, 1975.*

Financial Aid to Crime Victims, October 31, 1975.

Persons Released From State Developmental Centers, December 18, 1975.

New York State Job Placement Programs, December 30, 1975.

Pre-Kindergarten Programs, December 31, 1975.*

DOT Real Estate Program, April 15, 1976.

Solid Waste Management in New York State, May 20, 1976.

Boards of Cooperative Educational Services Programs, June 28, 1976.

Boards of Cooperative Educational Services Finances, June 30, 1976.

Workmen's Compensation Program for State Employees, July 30, 1976.*

Public Pension Fund Regulation, October 29, 1976.

Computers in New York State Government, December 1, 1976.

Health Planning in New York State, January 3, 1977.*

The Optional Service Charge Law, March 11, 1977.

Immunization of Children, May 27, 1977.

State Parks and Recreation Program, October 11, 1977.

State Travel Costs, December 15, 1977.

Venereal Disease Control, December 16, 1977.

State Environmental Permits, December 19, 1977.

Pupil Transportation Programs, January 30, 1978.*

Housing Maintenance Code Enforcement in New York City, March 31, 1978.

Vacation Credit Exchange, June 16, 1978.

Adirondack Park Planning and Regulation, July 31, 1978.

School Food Programs, August 7, 1978.

SUNY Developing and Nontraditional Colleges, September 26, 1978.

Newborn Metabolic Screening Program, October 31, 1978.

Fiscal Effect of State School Mandates, December 20, 1978.

School District Budget Voting and Contingency Budgeting, December 26, 1978.

State Aid for Operating Sewage Treatment Plants, April 16, 1979.

Crime Victims Compensation Program, April 23, 1979.

Drinking Driver Program, May 15, 1979.

Unemployment Insurance for State Employees, July 20, 1979.

Work Programs for Welfare Recipients, August 3, 1979.

CETA Programs in New York State, August 24, 1979.

Parole Resource Centers Program, August 31, 1979.

Local Government Use of State Contracts, October 15, 1979.

Use of State Adult Psychiatric Centers, February 29, 1980.

National Guard Strength and Armories, March 17, 1980.

School District Committees on the Handicapped, April 15, 1980.

Delinquency Prevention and Youth Development Programs, May 2, 1980.

Energy Use in State Facilities, June 11, 1980.

Occupational Education in Secondary Schools, July 8, 1980.

Use of State Developmental Centers, November 6, 1980.

Energy Research and Development Programs, December 24, 1980.

State Subsidized Low Rent Public Housing, December 31, 1980.

Taxpayer Services Program, March 9, 1981.

Title XX Social Services, March 13, 1981.

State Prison Inmate Health Services, June 19, 1981.

Runaway and Homeless Youth, July 15, 1981

State Mandates to Counties, August 14, 1981.

Control of the State Telephone System, August 21, 1981.

Hospital and Nursing Homes Management Fund, October 5, 1981.

Methadone Program, December 21, 1981.

Regulation of Automotive Repair Shops, December 24, 1981.

School District Cash Management, December 29, 1981.

*Out of print; loan copies available upon request.

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